ONTARIO MEDIA DEVELOPMENT CORPORATION

INDUSTRY PROFILE

MUSIC

Ontario
Ontario Media Development Corporation
Société de développement de l'industrie des médias de l'Ontario

www.omdc.on.ca

Introduction

The Canadian sound recording industry includes a wide range of artists and entrepreneurs who create, produce and market original Canadian music. These include musicians, songwriters, record labels, managers, concert promoters and music publishers. The Canadian market is dominated by the large multinational record and publishing companies but also has a strong independent sector composed mainly of small to medium-sized record companies, publishers and managers. The vast majority of Canadian content is commercially released by Canadian-owned and controlled indie labels. The recorded music industry is the engine helping to drive a much broader music industry, estimated in 2009 to be worth more than US $140 billion globally. This is over six times the value of the recorded music sector alone.[1]

Ontario's sound recording and music publishing industry is the largest in Canada, with the highest revenues across the board, from record production to music publishing to sound recording studios.[2] Moreover, the Ontario industry produces a huge number of critically acclaimed artists:

- The 2010 Juno award nominees included acts and albums produced by a long list of Ontario labels like MapleMusic, Arts & Crafts, Last Gang Records, Dine Alone Records, Six Shooter Records, Sonic Unyon and more. Winners included Metric (Last Gang) who received trophies for Group of the Year and Alternative Album of the Year and a nomination for Songwriter of the Year for Emily Haines and James Shaw, as well as The Arkells (Dine Alone) for New Group of the Year.
- The 2009 Polaris Prize was awarded to Ontario band F__ked Up for their album *The Chemistry of Common Life* and Broken Social Scene (Arts & Crafts) was shortlisted for the same prize for *Forgiveness Rock Record*.
- The 2009 International Songwriting Competition awards honoured Ontario artists Cansecos, Bignic and Sultans of String.

In 2008, *Billboard* Magazine named Last Gang Records Co-founder and President Chris Taylor one of ten "indie innovators who are taking risks and reaping the rewards" in a profile entitled "The Visionaries". In 2009, Arts & Crafts Co-founder and President Jeffrey Remedios was identified by Rolling Stone as one of nine music industry insiders destined to change the shape of music in the coming years.[3]

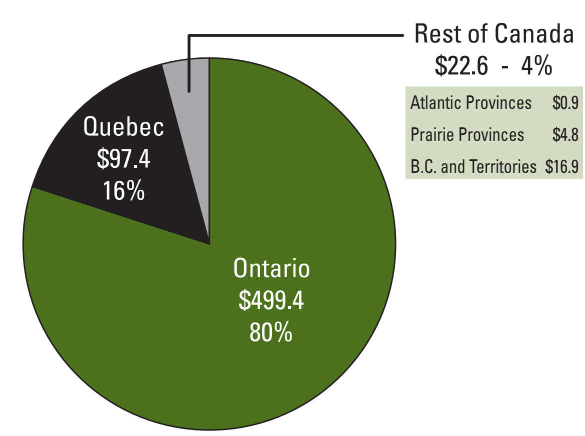
Industry Size and Economic Impact

Employment and wages

- In 2008, Canadian record labels paid $74.9 million in salaries, wages and benefits for their employees. The bulk of these wages, $60.2 million, were paid in Ontario. Both figures mark a decrease from 2007 levels. This downward trend in salaries paid was replicated across the country.[4]

Canadian Record Label Operating Revenues by Region, 2008

(dollar figures expressed in millions of dollars)



Source: Statistics Canada, "Sound recording and music publishing, 2008," Table 1, March 2010.

Revenues and related figures

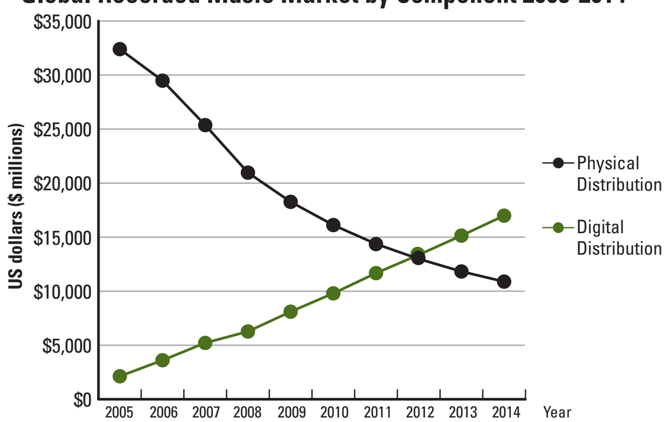
- Total operating revenues for Canadian record labels (which include multinational labels operating in Canada) dropped in 2008, falling to $619 million from $673.5 million in 2007. Ontario companies experienced a drop as well, with their revenues falling to $499 million in 2008 from $533.5 million the previous year. All other provinces showed a similar decline between 2007 and 2008. Ontario's recent declines followed a significant increase in revenues between 2005 and 2006 (from $479.4 million to $572.6 million) —a period when all other regions showed declines.[5]
- The majority of record label revenues, 76.2%, continued to be generated by foreign-controlled companies in 2008. However, Canadian-controlled labels remained consistent and focused in responding to the competitive challenges that faced them in 2008, with a very slight downward growth trend from 2007 (less than one percent), while foreign-owned labels saw a decline in revenue of 11.18% over the same time period.[6]
- Total operating revenues for Canada's music publishing sector rose 15.3% in 2008 for a total value of $141.7 million. However, profit margins dropped to 7.3% over the same period, from 11.1% in 2007.[7]
- Total operating revenues for Canadian sound recording studios rose 12.8% in 2008 to $118.3 million. Operating expenses rose 14.9% to $102.3 million over the same period, while at the same time profit margins fell from 15.2% in 2007 to 13.6% in 2008. This trend held true in Ontario, where operating revenues rose to $48.1 million in 2008 (compared to $42.1 million in 2007), while the operating profit margin fell from 18.0% to 10.5%.[8]

Consumer market

- According to the International Federation of the Phonographic Industry, global recorded music sales, which include physical sales, digital sales and performance rights, totaled US $17.0 billion in 2009, a decline of 7.2% from 2008. On a retail basis, the global recorded music market was worth an estimated US $25.4 billion in 2009.[9]

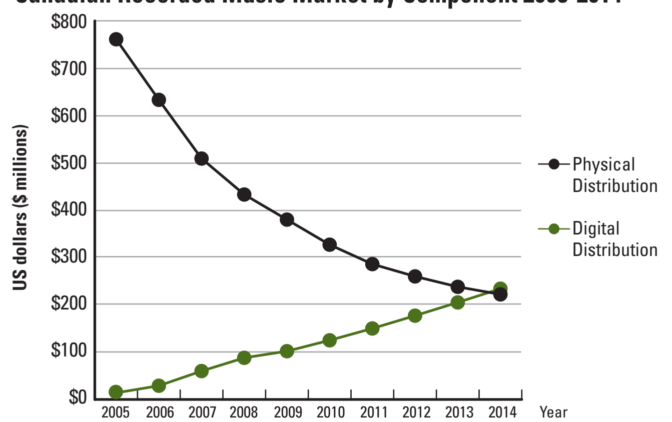
INDUSTRY PROFILE MUSIC

Global Recorded Music Market by Component 2005-2014



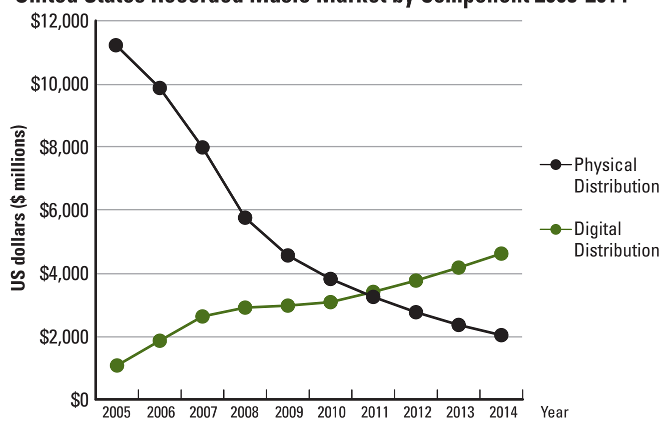
PwC, Global and Entertainment and Media Outlook, 2010-2014 p. 44.

Canadian Recorded Music Market by Component 2005-2014



PwC, Global and Entertainment and Media Outlook, 2010-2014 p. 280.

United States Recorded Music Market by Component 2005-2014



PwC, Global and Entertainment and Media Outlook, 2010-2014 p. 42.

- PricewaterhouseCoopers projects that the global recorded music market — defined as consumer spending on music in physical formats and digital distribution and streaming services — is anticipated to fall to US $25.9 billion in 2010. This drop is due in large part to the continued decline in spending on physical formats. While spending on digital formats increased by 20.9% in 2010, it is not sufficient to counter those losses.[10]
- The Canadian recorded music market is anticipated to fall by 6.2% in 2010 for a total market value of US $452 million. This decline is slightly less than the 7.5% decline experienced in 2009.[11]
- Recorded music sales in Canada were at $482 million in 2009. This represents a drop of 7.5% from 2008 levels, mainly driven by a sharp decline in physical sales. In contrast, digital sales in Canada grew at a rate above the global average, from US $88 million in 2008 to US $102 million in 2009. This represents 58.2 million single digital tracks sold (up from 40.7 million in 2008) and 4.9 million digital albums (up from 3.4 in 2008).[12]
- After showing a five year decline, Canada's recorded music exports increased slightly in 2007 to $125.9 million. The vast majority of those exports, $123.1 million, were made to the U.S.[13]
- In 2009, physical album sales in Canada totaled 30.2 million units. When combined with digital album sales, this represents 35.1 million album equivalents.[14]
- In 2005, estimated total live performance revenues in Canada amounted to $752.8 million. *Billboard* Magazine estimates North American gross concert ticket sales to be $3.5 billion.[15]

Trends and Issues

Growth rate and industry trends

- The global recorded music market is anticipated to be valued at US $27.9 billion in 2014, with a compounded annual growth rate of 3.4%. The Canadian recorded music market is anticipated to be valued at US $456 million in 2014, with a compound annual rate of decline between 2010 and 2014 of -10.2% for physical formats, and compound annual rate of growth in the same time period of 18.1% for the digital market.[16]
- The migration to digital is in full swing in the music industry. While consumer spending on less expensive digital formats has yet to outstrip that of physical formats, digital expenditures are on the rise, and spending on physical formats is falling. It is anticipated that consumer spending on physical formats will decline by a compounded annual rate of -9.8% through 2014. By contrast, consumer spending on digital distribution, including Internet and mobile phone distribution, will grow at a rate of 16.0% through 2014. Estimates show that, dollar for dollar, digital spending will outpace physical spending by 2012.[17] (See charts on previous page.)
- The popularity of downloading music digitally is increasing globally, but the trend is particularly pronounced in Canada as the country continues to outpace the global average. U.S. digital music sales rose by a modest 0.7% from 2008-2009, while digital sales in Canada grew 13.0% in the same time period.[18] Digital sales are now poised to overtake conventional album sales. In fact, in November 2008, Warner Music Group announced that, for the first time, digital revenues at its Atlantic Records unit had surpassed compact disc sales.[19]
- Ontario has a higher Internet penetration rate than the national average and Ontarians spend more time online than the average Canadian.[20] Given the popularity of music downloading, this has a significant impact on music industry consumer patterns in the province. The average on-line music consumer in Canada purchases 24 tracks per month, compared to 59 tracks for Ontario residents.[21]
- Piracy continues to take a serious toll on the recorded music industry globally.[22] The lost business attributable to piracy is estimated at US $3.7 billion, and it is estimated that there are 20 illegal downloads for every legal one.[23] Increasing levels of Internet and broadband penetration and the development of a variety of file sharing technologies have facilitated the process. While the digital marketplace provides new opportunities for sales, it has also created an environment in which it is extremely difficult to protect intellectual property from piracy. The music sector has been particularly hard hit by this trend and is struggling to identify solutions.
- In June 2010, the federal government introduced copyright reform legislation to amend the Copyright Act after a series of consultations with Canadians, and several earlier attempts to adopt a new bill.[24] The Canadian Recording Industry Association (CRIA) and Canadian Independent Music Association (CIMA) have both reacted favourably to the intent of the Bill, and are working to ensure that the legislation is amended to protect the rights of artists and other rights holders to make a living from their work.[25] Bill C-32 had its first reading on June 2, 2010 and must go through Committee hearings before being passed into law.
- Digital advances provide exciting new opportunities for online advertising and promotions, both on a grass-roots level—more than 1.2 million rock acts have Myspace pages—and on a major commercial level. However, the proliferation of music and music promotions online makes it difficult to identify the best and brightest from among the masses—a function that used to be fulfilled by radio stations. Ontario recording companies must therefore find new and innovative ways to attract attention to their online product.[26]

Global and domestic issues

- Consolidation has created a variety of issues for the music industry. The rise of a few large mass-market retailers has resulted in reduced market access. This trend prevents smaller labels, who are less able to negotiate reasonable deals with large retailers, from getting adequate shelf-space in stores. Recent consolidation among record labels has also had effects on the market.[27] The four major multinational labels have the largest share of the global and domestic markets, and many small Ontario labels negotiate deals with these major labels to distribute their products. Other distribution alternatives outside of the major labels are also available for independent labels, particularly in the digital arena.
- As a result of stressors like consolidation and piracy, small record labels have been forced to explore other means of generating revenue, such as live performance and related merchandizing. Live performance is a fast-growing sector, worth US $17 billion globally in 2006, up 16% from 2005.[28] Touring was once thought of as a promotional tool for album sales, and proceeds from such performances went to concert promoters, agents, management and artists. Given changes to the market, labels are now looking to access revenue from live performance and merchandizing as well as licensing and other revenue sources through 360 deals.[29] Ontario's small labels have been working to build the infrastructure and expertise required to access such alternative revenue streams.

Government assistance[30]

- At the federal level, support to the sound recording industry comes through the Canada Music Fund, administered by the Department of Canadian Heritage. In 2009 it was announced that this fund would be increased by $9.85 million annually, to $27.6 million a year until 2014. The Canada Music Fund has been restructured, eliminating the Canadian Musical Diversity and Support to Sector Associations streams and adding specialized support for digital and international market development.[31] Other organizations and funds such as FACTOR, the Radio Starmaker Fund and federal and provincial arts councils, including the Ontario Arts Council, provide a variety of assistance programs to the Canadian music industry.
- In 2010-11, Ontario record labels, music publishers and artist management firms have access to public funding through the Ontario Sound Recording Tax Credit, the OMDC Music Fund, the OMDC Export Fund and the Entertainment and Creative Cluster Partnerships Fund. OMDC also provides funding to trade and event organizations in the music industry through the Industry Development Program for events and activities that stimulate the growth of the industry.
- OMDC Music Fund recipient Last Gang Records have enjoyed success with their long-time act, Metric. In addition to the 2010 Juno Awards for Group of the Year and Alternative Album of the Year, Metric were also asked to write and record the theme song for the Twilight film franchise's third installment, *Eclipse*. The song, *Eclipse (All Yours)* was released as a single in June 2010.[32]
- Ontario artists SoundBluntz were chart toppers in the U.K. thanks in part to relationships that their Ontario label, Awesome Music, were able to build at international music market MIDEM. Awesome Music received financing from the OMDC Export Fund in order to attend the event.
- In addition to direct company support, OMDC also provides assistance for export development initiatives for the music industry through support of international missions, such as CIMA's Canadian Music Mission to Asia in 2007 and 2008 and London Calling, U.K., as well as support to Canada Stands at major markets including MIDEM, POPKOMM and SXSW.

Profiles current as of September 23, 2010.

(Endnotes)

1 International Federation of the Phonographic Industry, *Recording Industry in Numbers 2010,* p. 24.

2 Statistics Canada, "Sound Recording and Music Publishing 2008," Catalogue no. 87F0008X, Tables 1, 2 and 3, March 2010.

3 "The Visionaries: Billboard brings you 10 indie innovators who are taking risks and reaping the rewards," *Billboard* Magazine, June 28, 2008; Brian Braiker, et al., "How to Save Rock & Roll: Nine insiders who are reshaping the music biz for 2009 and beyond," *Rolling Stone*, January 6, 2009.

4 Statistics Canada, "Sound Recording and Music Publishing 2008," Table 1.

5 Statistics Canada, "Sound Recording and Music Publishing 2008," Table 1; Statistics Canada, "Sound Recording and Music Publishing 2007," Catalogue no. 87F0008X ,Table 1.

6 Statistics Canada, "Sound Recording and Music Publishing 2008," p.1, Tables 1 and 9. Statistics Canada does not include the smallest firms in their estimates for revenues earned. These firms account for a relatively small portion of total industry revenues.

7 Statistics Canada, "Sound Recording and Music Publishing 2008," Table 2.

8 Statistics Canada, "Sound Recording and Music Publishing 2008," Table 3.

9 International Federation of the Phonographic Industry, *Recording Industry in Numbers 2010*, pp. 5 and 24.

10 PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook 2010-2014*, p. 44.

11 ibid, pp.308-309.

12 International Federation of the Phonographic Industry, *Recording Industry in Numbers 2010*, p. 28.

13 Statistics Canada, "Culture Goods Trade: Data Tables 2007," Catalogue no. 87-007-X, Tables 1 and 2, October 2008.

14 International Federation of the Phonographic Industry, *Recording Industry in Numbers 2010*, p. 28.

15 Douglas Hyatt, *An Overview of the Financial Impact of the Canadian Music Industry*, May 2008, p. 29.

16 PwC, pp. 36 and 307-308.

17 International Federation of the Phonographic Industry, *Recording Industry in Numbers 2010*, pp. 28-29.

18 "Canada dancing to digital tunes," *www.cbc.ca*, January 8, 2009.

19 Ryan Nakashima, "Digital sales boost Warner Music profit," *globeandmail.com*, November 26, 2008.

20 Charles Zamaria and Fred Fletcher, *Canadian Internet Project (CIP), Canada Online! The Internet, Media and Emerging Technologies: Uses, Attitudes, Trends and International Comparisons*, Year Two Report 2007, pp. 38 and 56.

21 Hyatt, p. 59.

22 PwC, p. 43.

23 Nordicity in association with Cuto and FRUKT, *A Strategic Study for the Music Industry in Ontario*, September 12, 2008, pp. 24-5.

24 Andrew Chung, "Copyright bill to enshrine digital locks, user rights," *The Globe and Mail*, June 2, 2010.

25 Press Release, "Copyright Bill Introduction Applauded by Canadian Record Labels," Canadian Recording Industry Association (CRIA) and Canadian Independent Music Association (CIMA), June 3, 2010.

26 Nordicity, p. 25.

27 SECOR Consulting, *Ontario Media Development Corporation: Towards a Strategic Plan*, September 2008, p. 10.

28 Gabriela Lopes,"The Broader Music Industry," *www.ifpi.org*, p. 2.

29 Nordicity, pp. 22-3, 29.

30 The information included in this section is an overview of some of the government assistance to the music industry. This is not intended to be a comprehensive list of government assistance available.

31 "Moore restructuring Canada Music Fund," *cbcnews.ca*, July 31, 2009.

32 Fiona Morrow, "Emily Haines says Twilight gig won't change Metric," *The Globe and Mail*, June 15, 2010.